



CITY OF LA MIRADA
DEDICATED TO SERVICE

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**THEASURER
STATE OF CALIFORNIA**

July 2, 2008

Mr. Robert Grossman
Group Managing Director
U. S. Public Finance
Fitch Ratings
33 Whitehall Street, 27th Fl.
New York, NY 10004

Ms. Gail Sussman
Group Managing Director
Public Finance
Moody's Investors Service
250 Greenwich Street
New York, NY 10007

Mr. William Montrone
Head
U.S. Public Finance Dept
Standard & Poor's
55 Water Street
New York, NY 10041

SUBJECT: ENDING DOUBLE STANDARD IN RATINGS OF MUNICIPAL AND CORPORATE BONDS

Dear Mr. Grossman, Ms. Sussman and Mr. Montrone:

The current system of assigning credit ratings to bonds issued by governmental entities, which provide essential services to the public, leads to indefensible market discrimination against state and local municipal issuers. The rating agencies' own studies show that the likelihood of default by municipal borrowers is much lower than for corporate borrowers with similar ratings. While ratings should be based primarily on an evaluation of the likelihood investors will suffer a loss due to default, this is not the case for municipal bonds. This practice costs taxpayers enormous amounts of money that could be invested in public programs and infrastructure.

The La Mirada City Council recently adopted the attached resolution urging your companies to end the double standard in the treatment of municipal and corporate bonds. The City Council urges you to treat taxpayers the same as corporations and rate municipal bonds based on the risk of investor loss due to default. Finally, we urge you to do this by creating a unified, global rating approach that treats all issuers equally, thereby better serving taxpayers and investors.

Thank you for your consideration.

Sincerely,

CITY OF LA MIRADA

Hal Malkin

Hal Malkin
Mayor

HM:AMT:jmb

cc: Bill Lockyer, State Treasurer
Kristine Guerrero, League of California Cities

RESOLUTION NO. 08-20

A RESOLUTION SUPPORTING REFORM OF THE BOND RATING SYSTEM TO ELIMINATE DISCRIMINATION AGAINST MUNICIPAL BONDS

THE CITY COUNCIL OF THE CITY OF LA MIRADA DOES RESOLVE AS FOLLOWS:

A. Recitals

- (i) Recent turmoil in the municipal bond markets has brought into focus higher standards imposed by major bond rating agencies in rating municipal bonds compared to corporate bonds, mortgage-backed securities and other debt instruments.
- (ii) While issuers of municipal bonds rarely default on the bonds they sell to finance critical infrastructure, municipal bond ratings fail to reflect this fundamental fact.
- (iii) Despite the relative default rates shown by their own data, rating agencies continue to discriminate against municipal issuers by requiring public agencies to secure expensive bond insurance in order to secure bond ratings comparable to those of private corporations.
- (iv) While rating agencies base their ratings of corporate bonds on the risk the issuer will default, their ratings of municipal bonds have little relationship to the risk of default thereby providing a substantial economic benefit at the expense of taxpayers across the nation.
- (v) A coalition of state and local public agencies, led by California State Treasurer Bill Lockyer, has called on the three major rating agencies to examine their practices and treat municipal bonds on par with corporate bonds that expose investors to the same level of risk.
- (vi) The current double-standard by rating agencies drains billions of dollars from taxpayers' pockets in the form of unfairly high interest rates; forces taxpayers to purchase expensive bond insurance – insurance they would not have to purchase if municipal bond ratings accurately reflected the slight risk of default; misleads investors by grossly inflating the risk of buying municipal bonds; and undermines the effective functioning of a transparent market.
- (vii) All legal prerequisites to the adoption of this Resolution have occurred.

B. Resolution

NOW, THEREFORE, be it resolved that the City Council of the City of La Mirada calls on the major municipal bond agencies to end the double standard in the treatment of municipal and corporate bonds; to treat taxpayers the same as corporations and rate municipal bonds based on the risk of default; and to create a unified, global rating approach that treats all issuers equally, and better serves taxpayers and investors.

PASSED, APPROVED AND ADOPTED this 27th Day of May 2008.


Hal Malkin, Mayor

ATTEST:

I, Anne Haraksin, City Clerk of the City of La Mirada do hereby certify that the foregoing Resolution No. 08-20 was duly adopted at a regular meeting of the City Council of the City of La Mirada held on this 27th day of May 2008 by the following roll call vote.

AYES: Councilmembers Chotiner, Jones, Mayor Pro Tem Tripp, Mayor Malkin
NOES:
ABSENT: Councilmember Dames
ABSTAIN:


Anne Haraksin, City Clerk